

## Message Text

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ORIGIN EA-12

INFO OCT-01 ISO-00 SS-15 AID-05 EB-08 AGRE-00 TRSE-00  
HA-05 SP-02 NSCE-00 IGA-02 L-03 H-01 OMB-01  
CIAE-00 INR-10 NSAE-00 INRE-00 DODE-00 PRS-01  
STR-07 CEA-01 /074 R

DRAFTED BY EA/K:BPORTER  
APPROVED BY D - MR. CHRISTOPHER  
EA - MR. GLEYSTEEN  
EA - MR. HEGINBOTHAM  
EA/EP - MR. MC CONVILLE  
AID/FFP - MR. MERCKER  
EB - MR. KATZ  
USDA/OGSM - MR. SHANKLIN  
TREASURY - MR. MC FADDEN  
HA - MR. BOVA

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FM SECSTATE WASHDC  
TO AMEMBASSY SEOUL IMMEDIATE

C O N F I D E N T I A L STATE 032075

E.O. 11652:GDS

TAGS: EAID, EAGR, SHUM, KS, US

SUBJECT:ROKG REQUEST FOR LONG TERM AGRICULTURAL COMMODITY  
SUPPLY AND CREDIT

REF: (A) 77 SEOUL 10049 (B) 77 SEOUL 10122 (C) STATE 27405

SUMMARY: IN RESPONSE TO THE ROKG REQUEST, THE USG IS  
PREPARED TO DISCUSS THE ROKG'S ESTIMATES OF ITS COMMODITY  
NEEDS OVER THE NEXT FOUR YEARS, AND THE EXTENT TO WHICH  
THE U.S. CAN MEET THOSE NEEDS. SPECIFICALLY, THE USG IS  
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PREPARED TO: (1) OFFER ANNUAL CONSULTATIONS TO DETERMINE  
KOREA'S NEEDS AND THE U.S. ABILITY TO SUPPLY THEM; (2)

GIVE FULL CONSIDERATION TO A POST-KENNEDY PL 480 PROGRAM,  
ALBEIT AT LESS ATTRACTIVE TERMS AND LOWER LEVELS THAN  
THE ORIGINAL KENNEDY UNDERSTANDING; AND (C) GIVE FULL  
CONSIDERATION TO CONTINUING CCC CREDITS, INCLUDING  
DIRECTLY WITH ROKG. ADDITIONALLY, USDA IS OFFERING TO  
CHANGE THE MIX OF COMMODITIES IN THE PROPOSED FIRST  
AMENDMENT TO ONE MORE APPROPRIATE TO KOREA'S CURRENT NEEDS.

WHILE LANGUAGE ON END USE OF PL 480 MUST BE INCLUDED IN AMENDMENTS TO THE AGREEMENT, WE CONTINUE TO EMPHASIZE THAT NEITHER THE ROK NOR ANY OF THE OTHER COUNTRIES THAT HAVE ALREADY SIGNED THE AGREEMENT IS THEREBY ADMITTING

HUMAN RIGHTS VIOLATIONS. WE FEEL THAT THE USG RESPONSE TO THE ROKG REQUEST ON COMMODITY SUPPLY QUESTIONS IS FORTHCOMING AND WE HOPE ATTRACTIVE ENOUGH TO OVERCOME ROKG RESERVATIONS CONCERNING THE END-USE LANGUAGE IN THE AMENDMENTS. END SUMMARY

1. THE ROKG REQUEST TRANSMITTED IN REF A ASKS THAT THE USG "PROVIDE AN ESTIMATE OF THE EXTENT TO WHICH U.S. SOURCES CAN BE EXPECTED TO BE ABLE TO MEET KOREA'S REQUIREMENT" FOR AGRICULTURAL COMMODITIES IN THE FUTURE. THE ESTIMATES OF KOREA'S IMPORT REQUIREMENTS FOR THE FOUR YEAR PERIOD 1978-1981 CONTAINED IN DEPUTY PRIME MINISTER NAM'S LETTER PROVIDE A STARTING POINT FOR USG/ROKG DISCUSSIONS ON THIS MATTER OF GREAT IMPORTANCE TO BOTH COUNTRIES. WE PRESUME USDA REGIONAL SALES MANAGER HARRISON ADDRESSED THIS TOPIC DURING HIS DISCUSSIONS IN SEOUL, AND USDA OFFICIALS ARE WILLING TO DISCUSS FURTHER THE SPECIFICS OF THE KOREAN REQUIREMENTS AT A MUTUALLY CONFIDENTIAL

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AGREEABLE TIME AND PLACE. THE PURPOSE OF SUCH DISCUSSIONS WOULD BE TO PROVIDE THE "ESTIMATE" THE ROKG HAS REQUESTED, AND TO MAKE CLEAR THE CAVEATS THAT MUST BE ATTACHED TO ANY UNDERSTANDING RELATED TO THE LONG-TERM SUPPLY OF AGRICULTURAL COMMODITIES.

2. MORE SPECIFICALLY NAM'S LETTER PROPOSED THAT THE USG AND THE ROKG AGREE TO AN ARRANGEMENT IN THREE PARTS. THESE ARE: (1) A LONG TERM SUPPLY AGREEMENT WHEREBY THE USG MAKES ASSURANCES TO SUPPLY WHEAT, CORN, SOYBEANS AND COTTON; (2) EXTENSION OF THE KENNEDY UNDERSTANDING ON PL 480 COVERING AS LARGE A SHARE OF ROK IMPORT REQUIREMENTS OF THESE COMMODITIES AS POSSIBLE; AND (3) A CCC-TYPE ARRANGEMENT FOR THE PORTION OF TOTAL IMPORT REQUIREMENTS NOT COVERED BY PL 480 ON A CCC/ROKG BASIS RATHER THAN ON THE PRESENT CCC/END-USER BASIS. WHILE THE SPECIFICS OF ANY UNDERSTANDING BETWEEN THE USG AND THE ROKG ON THIS SUBJECT COULD ONLY BE DETERMINED FOLLOWING THE DISCUSSIONS NOTED IN PARA ONE ON THE QUANTITIES INVOLVED, OUR TENTATIVE REACTION TO EACH OF THE THREE POINTS IS PRESENTED BELOW, AND CAN BE CONVEYED TO THE ROKG.

3. LONG TERM SUPPLY AGREEMENT: AS INDICATED IN REF C, IT IS NOT THE PRACTICE OF THE USG TO ENTER INTO BINDING AGRICULTURAL COMMODITY SUPPLY AGREEMENTS, AND IT IS HIGHLY DOUBTFUL THAT SUCH AN AGREEMENT FOR KOREA COULD

GET INTER-AGENCY APPROVAL. THERE ARE ALSO SERIOUS RESERVATIONS HERE ON THE VALUE AND DESIRABILITY OF A SO-CALLED "HANDSHAKE AGREEMENT", WHETHER FOR KOREA OR OTHER COUNTRIES, AND THE USG IS NOT RPT NOT NOW PREPARED

TO OFFER THE ROKG THIS TYPE OF WRITTEN ASSURANCE ON LONG-TERM SUPPLY. HOWEVER, THE USG DOES DESIRE TO PROVIDE EVERY POSSIBLE ASSURANCE ON THE RELIABILITY OF THE UNITED STATES AS A SUPPLIER, AND TOWARD THIS END  
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CAN OFFER ANNUAL CONSULTATIONS BETWEEN THE TWO GOVERNMENTS ON SUPPLY MATTERS. THESE CONSULTATIONS WOULD BE AIMED AT ASSESSING KOREA'S NEEDS IN THE CONTEXT OF U.S. SUPPLIES AND MARKET PRESSURES. IN MAKING THIS OFFER ON CONSULTATIONS, AS AN ALTERNATIVE TO A FORMAL WRITTEN AGREEMENT, YOU SHOULD STRESS TO THE ROKG THAT THE "HANDSHAKE" ARRANGEMENTS THAT WE HAVE WITH OTHER COUNTRIES ARE NOT LEGALLY BINDING. ANNUAL CONSULTATIONS, ENTERED INTO IN GOOD FAITH, WOULD BE A CLEAR STATEMENT OF US INTENT TO REMAIN A RELIABLE AND, MORE IMPORTANTLY, THE PRIMARY SUPPLIER OF KOREA'S AGRICULTURAL IMPORTS. YOUR RESPONSE SHOULD STRESS OUR AWARENESS OF THE IMPORTANCE OF THE ROKG'S INTEREST IN MAINTAINING A DEPENDABLE SUPPLY SOURCE FOR THESE COMMODITIES, ANDOUR AWARENESS OF THE UNITED STATES' POSITION AS THE MAJOR SUPPLIER TO KOREA OF GRAINS AND OTHER AGRICULTURAL PRODUCT --A POSITION WE HAVE A STRONG INTEREST IN MAINTAINING. THE TRADITIONAL SUPPLIER/CUSTOMER RELATIONSHIP THAT HAS EXISTED FOR MANY YEARS HAS PROVEN BENEFICIAL TO BOTH COUNTRIES AND WE EXPECT IT TO CONTINUE TO BE SO.

4. PL 480: IN RECENT YEARS THE USG HAS NOT MADE LONG-TERM COMMITMENTS UNDER TITLE I AND IT IS UNLIKELY THAT AN EXCEPTION TO THIS POLICY WILL BE MADE FOR KOREA. HOWEVER, THE ROKG CAN BE ASSURED THAT THE USG RECOGNIZES THE ECONOMIC BENEFITS TO KOREA OF A CONTINUING PL 480 PROGRAM AS STATED IN NAM'S LETTER, AND SHARES WITH THE ROKG A STRONG INTEREST IN THE CONTINUED DEVELOPMENT OF THE KOREAN ECONOMY. WE ALSO RECOGNIZE THE VALUE OF TITLE I IN MAINTAINING OUR MARKET POSITION VIS-A-VIS THIRD COUNTRY SUPPLIERS, AND THIS WILL BE FACTORED INTO THE DECISION-MAKING PROCESS WHEN PL 480 PROGRAM PROPOSALS FOR KOREA IN THE POST-KENNEDY COMMITMENT YEARS ARE  
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CONSIDERED. THE CONSTRAINTS ASSOCIATED WITH MAKING FINAL DECISIONS ON SPECIFIC PROGRAMS ON AN ANNUAL BASIS ARE WELL-KNOWN BOTH TO THE EMBASSY AND THE ROKG. THESE CONSTRAINTS WERE REITERATED IN PARA 3 OF REF C.

HOWEVER, SINCE WE CONSIDER MAINTENANCE OF THE U.S. POSITION FOR AGRICULTURAL PRODUCTS IN THE KOREAN MARKET TO BE VERY IMPORTANT, WE WANT TO RESPOND AS POSITIVELY AS POSSIBLE IN AN ATTEMPT TO MITIGATE THE PROSPECT THAT THE ROK WILL SEEK A BROADER SUPPLY BASE, PARTICULARLY FOR GRAINS. OUR BEST INTENTIONS NOTWITHSTANDING, IN ADDRESSING NAM'S REQUEST THAT PL 480 COVER "AS LARGE A SHARE AS POSSIBLE OF THESE U.S. COMMODITIES"

THERE WOULD BE NO POINT IN DENYING THAT TWO CHANGES WILL BE MADE AFTER THE COMPLETION OF THE KENNEDY UNDERSTANDING- THE TERMS WOULD MOST LIKELY BE HARDENED CONSIDERABLY FROM THOSE IN THE CURRENT AGREEMENTS, AND THE COMMODITY/ DOLLAR LEVELS WOULD HAVE TO BE MARKEDLY REDUCED FROM THE LEVELS CONTEMPLATED DURING EACH YEAR OF THE KENNEDY UNDERSTANDING.

5. CCC CREDITS: PARA 3, REF C ESSENTIALLY STATES THE CONSTRAINTS ASSOCIATED WITH THE GRANTING OF CCC CREDITS. THE ROKG IS AWARE OF THESE CONSTRAINTS. HOWEVER, AT THIS TIME WE BELIEVE THERE WILL BE NO DEPARTURE FROM THE LONG HISTORY OF ANNUAL CREDIT EXTENSIONS TO KOREA. NAM'S SPECIFIC REQUEST THAT CCC CREDITS BE EXTENDED ON A CCC/ROKG RATHER THAN CCC/END-USER BASIS SUGGESTS A POSSIBLE MISUNDERSTANDING. ANY GOVERNMENT OR ITS AGENCIES AREFULLY ELIGIBLE TO PARTICIPATE IN CCC CREDIT FINANCING. GSM-5 FINANCING IS NOT RPT NOT RESTRICTED TO PRIVATE COMMERCIAL ENTITIES. (ALTHOUGH CCC CREDIT FINANCING IS AVAILABLE FOR GOVERNMENTS, USDA PREFERS THAT END-USERS BE THE RECIPIENTS.) SINCE CREDITS CAN BE OFFERED FOR UP TO THREE YEARS, AN UNDERSTANDING WITH THE ROKG CAN BE REACHED ON THIS WITH THE CAVEATS ALREADY  
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NOTED.

6. IN A PREVIOUS REQUEST SEPARATE FROM THAT CONTAINED IN NAM'S LETTER, THE ROKG ASKED THAT THE COMMODITY MIX OF THE PROPOSED FIRST AMENDMENT OF THE PL 480 AGREEMENT BE SHIFTED AWAY FROM BARLEY TO CORN (OR PERHAPS WHEAT). WE ARE PREPARED TO BE FORTHCOMING ON THAT REQUEST AND THE DETAILS OF THE USDA PROPOSAL (BEING SENT SEPTEL) SHOULD MEET THE KOREAN CONCERNs.

4. THE ABOVE OFFER IS PRESENTED IN RESPONSE TO NAM'S LETTER AND PREVIOUS ROKG REQUESTS RELATING TO PL 480. OBVIOUSLY, THIS TOPIC DOES NOT EXIST IN A "HUMAN RIGHTS" VACUUM AND IT SEEMS CLEAR THAT THE ROKG WILL REITERATE ITS RELUCTANCE TO ACCEPT ANY LANGUAGE IN THE PL 480 AMENDMENTS REGARDING THE USE OF THE PROCEEDS TO BENEFIT THE NEEDY. YOUR RESPONSE SHOULD AGAIN BE TO STRESS THE POINT THAT THE LANGUAGE DOES NOT RPT NOT MENTION HUMAN

RIGHTS OR VIOLATIONS OF HUMAN RIGHTS AND THAT THE ROKG SHOULD NOT MAKE THAT INTERPRETATION. THIS LANGUAGE MUST EITHER BE INCORPORATED IN THE AMENDMENTS TO THE KOREAN AGREEMENT, OR BE CONTAINED IN ANEXCHANGE OF LETTERS AS WAS DONE IN THE CASE OF INDONESIA. WE ARE NOT CONVINCED THAT THE LATTER WOULD BE USEFUL, BUT IF THE EMBASSY BELIEVES THAT IT MIGHT HELP, THE DEPARTMENT WILL AGREE TO THIS OPTION FOR KOREA. HOWEVER, IT MUST BE

CLEARLY UNDERSTOOD THAT SUCH AN EXCHANGE OF LETTERS MUST BE MADE PUBLIC AND CONSIDERED PART OF THE AGREEMENT. FYI: WE BELIEVE THAT TO CONSIDER MAKING AN EXCEPTION OF KOREA IN THE USE OF THIS LANGUAGE WOULD RAISE ADDITIONAL PROBLEMS WITH OTHER COUNTRIES THAT HAVE ALREADY ACCEPTED THE END-USE LANGUAGE. END FYI

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8. THE USG'S RESPONSE CONTAINED IN PARAS 3 TO 7 ABOVE IS AN ACCURATE REFLECTION OF THE CURRENT USG POSITION ON THE ROKG REQUEST AND IS PROVIDED AS A FRAMEWORK WITHIN WHICH AN OFFER CAN BE MADE TO THE ROKG. WE BELIEVE THAT IN CLARIFICATION OF REF C THIS MESSAGE PRESENTS A FORTHCOMING RESPONSE TO ROK CONCERNs.

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## Message Attributes

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